

R. J Reynolds

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Fray Natale

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 **E Mail**

September 3, 1997

TO: Don Fitzgerald

RE: Doral Product Marking

Don,

For the most part I disagree that a program deploying part time resources to "black line" Doral product would be beneficial to the Buffalo Region. The DM's report that while they have encountered instances where a retailer has bought product from a CTS and asked us to sticker it, the problem is not wide spread. It is being handled, individually, with these accounts.

The majority of retailers that buy from CTS locations own low volume outlets. They generally buy the major Full Price brands. Due to our low incidence of call coverage in these low volume accounts, we would not be in to further discount this product anyhow.

To the best of our knowledge, chain stores in the Region do not buy product from CTS locations. Our concern then becomes whether or not the higher volume independent retailers are buying Doral from CTS locations, which we in turn discount again. The reality is that the majority of these types of accounts are on a Doral buydown to match the tactics of G.P.C. This in turn forces a Sales Rep or Retail Rep to check invoices to verify purchases before paying. If the product was bought at a CTS, the Sales Rep or Retail Rep would know that the product was already discounted and should handle the issue. I believe that a heightened awareness relative to this scam would be beneficial. We can, however, police this issue by utilizing our Sales Force in place. If Sales Reps and Retail Reps were to diligently apply the following two (2) tactics we could greatly curtail the problem of double promoting:

- 1) Where Doral is on buydown, ensure that we check the supplier when we verify invoices for product quantities. If a CTS supplier is involved, the issue needs to be addressed by the Sales Rep or Retail Rep to stop double promoting.

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2) In stores where we sticker on hand inventory and pay based on our count, we should again verify the source of the product. If it is a CTS supplier, the issue needs to be addressed by the Sales Rep or Retail Rep. I would recommend using this tactic when we sticker more than approximately thirty (30) cartons per visit. The retailer trying to beat us would probably bring in larger quantities of product. The stickering of five to ten (5 - 10) cartons per visit would not warrant the checking of invoices.

The addition of part time personnel could be logistically difficult in rural geographys. If the CTS locations are set apart, significant drive time would be encountered resulting in our paying mileage and wages for driving vs. working. The only way to prevent this would be to bring on numerous part timers. In addition, most CTS locations receive two to three (2 - 3) orders per week. This would result in marking approximately 50 -60% of product if the call is made once per week.

A better solution may be to investigate the feasibility of forcing the CTS location to mark the product. They have people in place that could potentially handle this task. It would be cheaper for us to reimburse the account for this service vs. paying for drive time and mileage. While the retailer could obviously hold back unmarked product to sell, I believe that most would support our efforts to protect ourselves from double promoting at retail.

Our greatest threat relative to double promoting probably lies with the Indian Reservations. While few if any retailers take the chance of selling untaxed product in states with a stamp, this practice may be occurring with retailers doing business in states without a stamp. In particular, the bootlegging of product from our NY Reservations to Michigan has occurred. To what extent is difficult to determine. The problem obviously affects all brands, not just Doral. Again, if Sales Reps and Retail Reps were to check supplier information as previously outlined, they would hopefully, prevent double promoting.

If the decision is made to deploy part time personnel to mark Doral in CTS stores, our approximate needs would be as follows:

90 Indian Reservations x 1.5 hours (per call) = 135 hours (per week)

169 CS BI Locations x 1.5 hours (per call) = 253 hours per week

259 Accounts Total x 1.5 hours = 388 hours (per week)

Approximate cost (per week): 388 hours x \$6.50 = \$2,522.00 + mileage

Approximate head count: 20

Assumptions: Weekly coverage
1.5 hours call time (includes drive time)

Sincerely,

Fray

F. V. Natale, RBM

c: Bill Roth

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